



City of San Diego

CARL DEMAIO
CITY COUNCILMEMBER –DISTRICT 5

MEMORANDUM

DATE: January 21, 2008

TO: Jeff Graham, Assistant Vice President, Redevelopment, CCDC

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Items for Inclusion in Civic Center Complex Peer Review

At the December 10 public input workshop, I asked that the independent reviewer of the Jones Lang LaSalle (JLL) financial analysis, Ernst & Young (E & Y), include the items below as a component of its final deliverable.

At a time when the City struggles with an ongoing structural budget deficit and an economic downturn, decisions that significantly impact City finances deserve extremely close scrutiny.

Therefore, as a means of applying this close examination, answers to the following 13 questions should be made clear as a result of the third party review:

1. How have changing market conditions affected the accuracy of the financial models used in the original assessment? Specifically, how do market changes experienced in construction costs, land values, and financing costs impact the required lease payment proposed by the developer?
2. As a follow-up to the first question, are the assumptions for lease escalation rates used in the financial models valid, given the changes to market conditions?
3. Does the inclusion of tenant improvement allowances truly constitute a “Do Nothing” scenario?
4. If we remove the tenant improvements incorporated into the “Do Nothing” scenario, would it be appropriate to also remove \$2.5 million of costs that are allocated toward transitional “Swing Space” in that scenario?

5. The City of San Diego faces a myriad of financial pressures in the next 5 – 10 years, such as pension obligations deferred maintenance, a structural budget deficit and an economic slowdown. Is the scenario under which a new City Hall is constructed more cost effective than the “Do Nothing” case when viewed over a 10-year time horizon as opposed to 15 years?
6. What is the impact in terms of potential increases in construction costs if a downtown Library is incorporated into the project?
7. How are the Operation and Maintenance costs for the city-owned facilities determined? Does this method accurately reflect actual expenditures for the City?
8. How are parking revenues factored in to the income stream of the project? Can the City receive more favorable treatment than is being proposed under the development project for parking revenues?
9. On a baseline budget basis, what office space cost increases will the City face over the next 15 years if it proceeds with the project?
10. Over the 15-year time horizon, what would be the impact if the City decreased its downtown staffing levels by 10%? What financial benefit from such a staffing reduction would be achieved in terms of office space costs?
11. Are there any alternatives that have not yet been considered that represent potentially beneficial options for the City of San Diego related to office space challenges?
12. Given the City’s current financial problems, what short-term solution (7 to 10 years) may be pursued as an interim step toward fulfilling the City’s office space needs?

The answers to these questions, in addition to the rest of the Third Party Review, will allow our City’s decision-makers to engage in a more comprehensive analysis of all available options, resulting in the best outcome for the citizens of San Diego.

CC: Mayor Jerry Sanders
Members of the City Council